



North Carolina Department of Health and Human Services
Division of Medical Assistance


2501 Mail Service Center • Raleigh, N. C. 27699-2501
Tel 919-855-4100 • Fax 919-733-6608

Michael F. Easley, Governor
Carmen Hooker Odom, Secretary

L. Allen Dobson, Jr., M.D., Assistant Secretary
for Health Policy and Medical Assistance

February 2007

TO: Members, Joint Legislative Commission on Governmental Operations

FROM: L. Allen Dobson, Jr., M.D. 

SUBJECT: Medicaid Provider Rate Increase Study

The Division recently received from its contractors, Navigant Consulting and Clifton-Gunderson, LLP, a report titled, "Medicaid Provider Rate Increase" as mandated by Senate Bill 1741. That legislation directed the Department to study and develop an equitable standard for providing inflationary increases to Medicaid providers.

The Department tasked Navigant and Clifton-Gunderson with developing priorities for the distribution of funds appropriated by the General Assembly. Their prioritization reflects (among other things) the 2-year inflationary costs by provider category, whether providers received any increased Medicaid payment, and other important factors. The Navigant & Clifton-Gunderson report makes several important points that bear repeating in this memorandum. They are:

- In a year absent a rate freeze, it costs **\$106.7 million** in state dollars to fully fund inflation.
- SB 1741 appropriated **\$12 million** in general funds for provider rate increases for the second half of the 2006-2007 fiscal year – **less than one quarter** of what is normally needed.
- All available information was used, providers were reviewed and input from provider associations was solicited and considered with respect to cost data.

The Department used the information contained in the contractor's report to develop our recommendations for distributing the \$12 million among 60K enrolled Medicaid providers. The attached two-page matrix, titled "Recommended Funding Distribution" details those recommendations.

- Providers are grouped into categories based upon which fee schedules they are reimbursed under.
- The priorities assigned by Navigant & Clifton-Gunderson are repeated in this matrix. Those rankings of either High, Medium, Low, or None are based upon whether:
 - Medicaid State Plan payment methodology results in an automatic rate increase if a provider's costs increase;
 - Payment methodology requires application of an inflation update factor and recent rate increase have been given to the providers;
 - State or federal laws or regulations dictate (or limit) the amount Medicaid can pay;
 - Medicaid reimbursement constitutes a high percentage of the provider's revenue stream;
 - Other funds, in addition to rate payments, that are available to the provider.
- Provider categories with a higher prioritization were recommended for a rate increase. And providers who are cost-settled or received Medicaid increases were recommended for little to no inflationary increase.

Division of Medical Assistance staff are finalizing the individual rate adjustments (within each of the provider categories) recommended for an inflationary increase. That task will be completed by next month, but all rate increases will have an effective date of January 1, 2007 as directed in SB 1741.

